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Indiana Department of Financial Institutions

TO YOUR CREDIT



Take Home Guide

Building: Knowledge,
Security, and Confidence

FINANCIAL EDUCATION CURRICULUM

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Money Smart

The *Money Smart* curriculum is brought to you by the Indiana Department of Financial Institutions/Federal Deposit Insurance Corporation (FDIC). The *Money Smart* program includes the following courses:

- **Your Rights**
your rights as a consumer
- **Bank On It**
an introduction to bank services
- **Check It Out**
how to choose and keep a checking account
- **Money Matters**
how to keep track of your money
- **Pay Yourself First**
why you should save, save, save
- **Borrowing Basics**
an introduction to credit
- **To Your Credit**
how your credit history will affect your credit future
- **Charge It Right**
how to make a credit card work for you
- **Your Own Home**
what homeownership is all about
- **Loan to Own**
know what you're borrowing before you buy

To Your Credit

Welcome To Your Credit! An important step to financial security is understanding your credit report and building a positive credit history. This course will provide you with general information on credit reports, how to repair credit, and available resources. When you have completed this course, you will be familiar with the importance of your credit history.

See the Indiana Department of Financial Institutions' Web Sites on Credit Reporting at: http://www.dfi.state.in.us/conscredit/CIcredit_reporting.htm.

Also see Consumer Rights Study Unit 5 on Fair Credit Reporting Act at: <http://www.dfi.state.in.us/conscredit/StudyUnits/unit5.htm>.

Web Site on How to Dispute Credit Bureau Errors at: <http://www.dfi.state.in.us/conscredit/DispCrEr.html>

Requesting a Copy of Your Credit Report

To request a copy of your credit report, you will generally need to provide the following information:

- Full name (including Jr., Sr., II).
- Social Security number (SSN).
- Current and previous addresses within the last 5 years
- Birth date
- Signature
- Telephone number.

Sample Dispute Letter from FTC

Date

Your Name

Your Address

Your City, State, Zip Code

Complaint Department

Name of Credit Reporting Agency

Address

City, State, Zip Code

Dear Sir or Madam:

I am writing to dispute the following information in my file. The items I dispute also are *(highlighted/circled)* on the attached copy of the credit report I received.

This item *(identify item/s disputed by name of source, such as name of creditor or tax court, and identify type of item, such as credit account, judgment, etc.)* is inaccurate or incomplete because *(describe what is inaccurate or incomplete and why)*. I am requesting that the item be deleted *(or request another specific change)* to correct the information.

Enclosed are copies of *(use this sentence if applicable and describe any enclosed documentation, such as payment records, court documents)* supporting my position. Please reinvestigate this/these matter/s and *(delete or correct)* the disputed item/s as soon as possible.

Sincerely,

Your Name

Enclosures: *(List what you are enclosing)*

Identity Theft

How to minimize the risk of identity theft

Identity theft is when someone takes your personal information without your knowledge to commit fraud or theft. The following points are recommendations from the Federal Trade Commission (FTC) to minimize the risk of identity theft:

- Before you reveal any personal information, find out how it will be used and whether it will be shared with others.
- Pay attention to your statements. If your bills don't arrive on time, contact your creditor. A missing credit card bill might mean the identity theft has changed your billing address and is using your account.
- Guard your mail from thieves. Pick up your mail from your mailbox as soon as possible. Place outgoing mail in post office collection boxes.
- Do not give out personal information over the phone or through the mail unless you have initiated the contact and know with whom you are dealing. Thieves may pose as bankers, government officials, or others to get you to reveal your Social Security or bank account numbers.
- Keep items with personal information safe. When you throw away receipts, credit card applications, and old checks or statements, shred them.
- When you make up your Personal Identification Number (PIN) for your ATM, credit, or debit card, don't use something a thief might guess, such as birth date, Social Security number, or phone number.
- Order a copy of your credit report every year. Catch mistakes and fraud before they ruin your personal finances.

What to do if you think your identity has been stolen

The FTC recommends the following actions if you believe you are a victim of identity theft. You can also call the FTC's Identity Theft Hotline at 1-877-438-4338. Take action immediately! Keep records of your conversations and all correspondence.

- Contact the fraud department of the three major credit reporting agencies. Tell them you are an identity theft victim. Ask them to place a "fraud alert" in your file. Ask for a copy of your credit report. They must give you a free copy of your report if your report is inaccurate because of fraud.
- Contact your creditors about any accounts that have been changed or opened fraudulently. Ask to speak with someone in the security or fraud department.
- File a report at your local police station. Get a copy of the police report so you have proof of the crime.

Tips to Build Your Credit History

- Apply for a small loan at the bank or credit union where you have checking and savings accounts.
- Apply for credit with a local store, such as a department store. They typically have a lower credit limit and a higher annual percentage rate (APR) but are generally more willing to lend you money. There is usually no fee for department store cards.
- Make a large down payment on a purchase and negotiate credit payments for the balance. If you do not have a credit history but have a large down payment, there is less risk you will not make the payments. For example, if you are buying a used car for \$5,000 and have enough cash, you might consider making a down payment of \$1,000-\$3,000. Although the loan will be very small, it can prove you make your payments on time.
- You might ask a friend or relative with an established credit history to be a co-signer for you. A co-signer promises to repay the loan if you don't. The lender should report the payment information for both you and the co-signer to the credit reporting agencies.
- Pay your bills on time. This will help establish a good credit history so you can get credit in the future.
- You might ask the lender to review your history of making rent and utility payments to demonstrate your ability to pay.

Repairing Credit

Repairing Credit on Your Own

- Start by contacting credit agencies to get a copy of your credit report.
- If there are errors on your credit report, you will need to send a dispute letter to the credit reporting agency to request an investigation.
- Contact your lenders to renegotiate payment plans.

Repairing Credit Using Credit Counseling Agencies

If you decide to use a credit counseling agency, the Federal Trade Commission provides the following tips for choosing a credit counseling agency and questions to ask regarding services and fees and repayment plans.

- Interview several credit counseling agencies before signing a contract.
- Check with your state attorney general and Better Business Bureau to find out if consumers have filed complaints about the agency you are considering. A reputable agency will send you free information about itself and the service it provides without requiring you to provide any details about your situation. If the agency won't do this, find another agency.
- Ask questions about services and fees and the repayment plan.

Questions to Ask Credit Counseling Agencies

Services and Fees:

- What services do you offer?
- Do you have educational material? If so, will you send them to me? Are they free? Can I access them on the Internet?
- In addition to helping me resolve my immediate problem, will you help me develop a plan for avoiding problems in the future.
- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What is the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?

- How soon can you take my case?
- Who regulates, oversees, or licenses your agency? Is your agency audited?
- Will I work with one counselor or several?
- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- What assurance do I have that information about me will be kept confidential?

Repayment Plan:

- How much debt must I have to use your services?
- How do you determine the amount of my payment? What happens if this is more than I can afford.
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put into a separate account from operating funds?
- How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?"
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- Is a debt repayment plan my only option?
- What if I can't maintain the agreed-upon plan?
- What debts will be excluded from the debt repayment plan?
- Will you help me plan for payment of these debts?
- Who will help me if I have problems with my accounts or creditors?
- How secure is the information I provide to you?
- Will this appear on my credit report?

The Truth About Credit Repair

Only consistent efforts and making payments on your debts will improve your credit.

Beware of companies that:

- Promise to erase your bad credit or to remove bankruptcies and judgments from your credit file. No one can have accurate information removed.
- Offer to create a new identity for you. If you make false statements on loan applications or use a fake Social Security number, you will be committing fraud. You can also be charged for mail or wire fraud if you use the mail or telephone to apply for credit and provide false information.
- Want you to pay for credit repair services before providing any service. The company might not be legitimate.
- Will not tell you your rights and what you can do yourself. Remember, you can order your credit report yourself. If you see errors on your report, you can also request that the credit reporting agencies make appropriate changes.

Before signing a contract, check with your local Better Business Bureau, state Attorney General's Office, or local consumer protection agency to check whether there have been complaints filed against the company.

Keep in mind, many states have laws that regulate credit repair companies.

For Further Information

Indiana Department of Financial Institutions

402 West Washington Street

Indianapolis, Indiana 46204-2759

(317) 232-3955

Email: dkaye@dfi.state.in.us

Web Site: <http://www.dfi.state.in.us>

Credit Reporting at:

http://www.dfi.state.in.us/conscredit/CIcredit_reporting.htm.

Study Unit 5 on Fair Credit Reporting Act at:

<http://www.dfi.state.in.us/conscredit/StudyUnits/unit5.htm>.

Web Site on How to Dispute Credit Bureau Errors at:

<http://www.dfi.state.in.us/conscredit/DispCrEr.html>

Federal Deposit Insurance Corporation (FDIC)

Division of Compliance and Consumer Affairs

550 17th Street, NW

Washington, DC 20429

1-877-275-3342

Email: consumer@fdic.gov

Web Site: <http://www.fdic.gov>

Credit Reporting Agencies

Experian

P.O. Box 949

Allen, TX 75013-0949

(888) 397-3742

Free

<http://www.experian.com/>

Equifax Credit Information Services, Inc.

P.O. Box 740241

Atlanta, GA 30374-0241

(800) 685-1111

\$8 Fee

<http://www.equifax.com/>

Trans Union Corporation

Trans Union Consumer Relations

760 West Sproul Road, P.O. Box 390

Springfield, PA 19064-0390

(800) 916-8800

\$8 Fee

<http://www.transunion.com/>

For more information about identity theft:

www.consumer.gov/idtheft 1-877-438-4338

www.fraud.org 1-800-876-7060

<http://www.dfi.state.in.us/conscredit/end.htm#ID> DFI Web Site on Identity Theft.
Page up for a list of other consumer information.

Credit Counseling Resources:

www.nfcc.org 1-800-388-2227

National Foundation for Credit Counseling is a national nonprofit organization that helps people resolve credit problems.

www.consumercredit.com

American Consumer Credit Counseling is a national non-profit consumer credit counseling organization that helps people regain financial control through debt consolidation and credit counseling.

www.aiccca.org/find.html 703-934-6118

Association of Independent Consumer Credit Counseling Agencies (Aicca) is a national membership organization established to promote quality and consistent delivery of credit counseling services.

www.myvesta.org 1-800-680-3328

Myvesta.org is a nonprofit, Internet-based financial counseling and services organization.

Other Resources:

www.firstgov.gov www.workers.gov www.consumer.gov

These Web Sites provide access to all online U. S. Federal Government resources.

www.pueblo.gsa.gov 1-800-688-9889

The **Federal Consumer Information Center (FCIC)** provides free online consumer information. The FCIC produces the Consumer Action Handbook which is designed to help citizens find the best source for assistance with their consumer problems and questions.

www.consumerworld.org

Consumer World is a public service which catalogs over 2000 consumer resources.

www.consumersunion.org

Consumers Union is a nonprofit organization that provides information on a variety of consumer issues.

Course Evaluation – To Your Credit

Instructor: _____ Date: _____

Thank you for your participation in this course. Your responses will help us improve the training for future participants. Please circle the number that shows how much you agree with each statement. Then answer the questions at the bottom of this form. If you have any questions, please feel free to ask your instructor.

	Strongly Disagree	Disagree	Agree	Strongly Agree
1. The course was interesting and kept my attention.	1	2	3	4
2. The examples in the course were clear and helpful.	1	2	3	4
3. The activities in the course helped me understand the information.	1	2	3	4
4. The slides were clear and easy to follow.	1	2	3	4
5. The take-home materials were easy to read and useful to me.	1	2	3	4
6. The instructor presented the information clearly and understandably.	1	2	3	4
7. The information / skill taught in the course is useful to me	1	2	3	4
8. I am confident that I can use the information / skill on my own.	1	2	3	4
9. I am satisfied with what I learned from this course.	1	2	3	4

What was the most helpful part of this course?

What was the least helpful part of this course?

Would you recommend this course to others?

Any comments or suggestions?

What Do You Know – To Your Credit

Instructor: _____ Date: _____

This form will allow you and the instructor to see what you know about borrowing basics both before and after the class. Read each statement below. Please circle the number that shows how much you agree with each statement.

Before-the-Course After-the-Course

<i>I know:</i>	Before-the-Course				After-the-Course			
	Strongly Disagree	Disagree	Agree	Strongly Agree	Strongly Disagree	Disagree	Agree	Strongly Agree
1. What a credit report is and how it is used.	1	2	3	4	1	2	3	4
2. How to order a credit report.	1	2	3	4	1	2	3	4
3. How to read a credit report.	1	2	3	4	1	2	3	4
4. How to start repairing credit.	1	2	3	4	1	2	3	4
5. How to recognize credit repair scams.	1	2	3	4	1	2	3	4
6. Available resources.	1	2	3	4	1	2	3	4

NOTES

NOTES

Brochures

The following are Brochures created by the Indiana Department of Financial Institutions on subjects covered in this course.

WHAT IS A CREDIT REPORT?

Your credit report contains important information about you. It generally includes facts about your identity, where you work, live, your bill-paying habits, and public record information. Credit grantors use credit reports to determine whether or not you will be extended credit. Identity information includes your name, address, marital status, Social Security number, date of birth, number of dependents, and previous addresses. Employment data includes your present position, length of employment, income, and previous jobs. Factual information about your credit history consists of your credit experiences with specific credit grantors. Public record information includes civil suits and judgments, bankruptcy records or other legal proceedings recorded by a court. A credit report does not contain information on arrest records, specific purchases, or medical records.

Companies called credit reporting agencies or credit bureaus compile and sell your credit report to businesses, which use it to evaluate your applications for credit, insurance, employment, and other purposes allowed by federal law. Therefore, it is important that your credit report contain complete and accurate information.

It is advisable that you review your credit report every three or four years to check for inaccuracies or omissions. You also may want to check your report sooner if you are considering a major purchase, such as buying a home.

HOW CAN I OBTAIN A CREDIT REPORT?

If you have been denied credit, insurance, or employment because of information that was supplied by a credit reporting agency, the Fair Credit Reporting Act requires the report recipient to give you the name and address of the credit reporting agency that supplied the information within 30 days after the credit was denied. If you contact that agency within 60 days of receiving the denial notice, you can receive a **free copy** of your credit report.

If you simply want a copy of your report, call the credit reporting agencies listed in the Yellow Pages under "credit" or "credit rating and reporting." Call each credit report agency listed since more than one agency may have a file on you, some with different information. You may have to pay a reasonable charge for each report.

Three large national credit bureaus supply most credit reports: Experian, Equifax, and Trans Union. You may want to contact each of them for a copy of your report.

Experian (Formerly TRW) <http://www.experian.com>
P.O. Box 949
Allen, TX 75013-0949
(888)397-3742
Free

Equifax Credit Information Services, Inc. <http://www.equifax.com>
P.O. Box 740241
Atlanta, GA 30374-0241
(800) 685-1111
\$8 Fee

Trans Union Corporation <http://www.transunion.com>
Trans Union Consumer Relations
760 West Sproul Road, P.O. Box 390
Springfield, PA 19064-0390
(800) 916-8800
\$8 Fee

When you show proper identification, the credit reporting agency must then disclose to you all its information and identify the sources of that information. The law requires the credit bureau to disclose the "nature and substance" of the information in the file. You must also be informed about anyone who obtained reports for employment purposes in the past two years, plus the names of all others who requested credit reports or other information about you in the past six months.

A consumer reporting agency will send a **free report** once in any 12-month period upon request of a consumer **if** the consumer is unemployed and intends to apply for employment in the 60-day period beginning on the date on which the certification is made, is a recipient of public welfare assistance, or has reason to believe that the file on the consumer at the agency contains inaccurate information due to fraud.

HOW CAN I CORRECT ERRORS ON MY CREDIT REPORT?

You have the right, under the Fair Credit Reporting Act, to dispute the completeness and accuracy of information in your credit file. When a credit reporting agency receives a dispute, it must reinvestigate and record the current status of the disputed items within a "reasonable period of time," unless it believes the dispute is frivolous or irrelevant."

If the credit reporting agency cannot verify a disputed item, it must delete it.

If your report contains erroneous information, the credit reporting agency must correct it. For example, if your file showed an account that belongs to another person, the credit reporting agency would have to delete it.

If an item is incomplete, the credit reporting agency must complete it. For example, if your file shows you were late in making payments on accounts, but failed to show that you were no longer delinquent, the credit reporting agency must show that your payments are now current.

At your request, the credit reporting agency must send a notice of correction to any report recipient who has checked your file in the past six months.

WHAT CAN I DO IF I HAVE A DISPUTE?

You must make your dispute directly to the credit reporting agency. Although the Fair Credit Reporting Act does not require it, the Federal Trade Commission staff recommends that you submit your dispute in writing, along with copies (NOT originals) of documents that support your position.

In addition to providing your complete name and address, your letter should clearly identify each item in your report you dispute; explain why you dispute the information; state the facts; and request deletion or correction. You may want to enclose a copy of your report with the items in question circled.

Send your dispute by certified mail, return receipt requested and keep copies of your dispute letter and enclosures.

DUTY TO CORRECT AND UPDATE INFORMATION ..

A person who furnishes information to one or more consumer reporting agencies and has furnished to a consumer reporting agency information that the person determines is not complete or accurate, shall promptly notify the consumer reporting agency of that determination and provide any corrections to that information to the agency and any additional information that is necessary to make the information provided by the person to the agency complete and accurate. The person shall not thereafter furnish to the agency any of the information that remains not complete or accurate.

CLOSED ACCOUNTS. . . .

A person who regularly and in the ordinary course of business furnishes information to a consumer reporting agency regarding a consumer who has a credit account with that person shall notify the agency of the voluntary closure of the account by the consumer, in information regularly furnished for the period in which the account is closed.

YOUR SIDE OF THE STORY. . . .

If a reinvestigation does not resolve your dispute, you can file a statement of up to 100 words to explain your side of the story. The credit reporting agency must include this explanation in your report each time it sends the report out. As well as to each report made within 60 days prior to your request. Credit reporting agency employees often are available to help you word your statement.

ARE ALL MY ACCOUNTS LISTED IN MY CREDIT REPORT?

Most credit grantors report their data to credit bureaus at least monthly. Some smaller lenders, however, do not report information to credit bureaus.

HOW LONG WILL INFORMATION STAY ON MY REPORT?

Be aware that when negative information in your report is accurate, only the passage of time can assure its removal. Credit reporting agencies are permitted by law to report bankruptcies for 10 years and other negative information for 7 years.

Also, any negative information may be reported indefinitely for use in the evaluation of your application for:

- ◆ \$150,000 or more in credit;
- ◆ a life insurance policy with a face amount of \$150,000 or more; or
- ◆ consideration for a job paying \$75,000 or more.

ADDING ACCOUNTS TO YOUR FILE...

Your credit file may not reflect all of your credit accounts. Although most national department stores and all-purpose bank credit card accounts will be included in your file, not all creditors supply information to credit reporting agencies.

If you have been told that you were denied credit because of an "insufficient credit file" or "no credit file" and you have accounts with creditors that do not appear in your credit file, you can ask the credit reporting agency to add this information to future reports. Although they are not required to do so, many credit reporting agencies will add other verifiable accounts for a fee.

WHAT ABOUT A CREDIT REPAIR COMPANY?

It is recommended that a credit repair company be looked at long and hard before being used. The law gives a consumer certain rights to accuracy in the credit report. If a credit report is repairable, it can be done by the consumer. If it contains accurate, negative information, handing money to a credit repair company will not help. They cannot remove accurate information or information you cannot have removed.

WHO CAN ORDER MY CREDIT REPORT?

There are limited circumstances under which a credit bureau may furnish consumer credit reports. These permissible purposes are:

- ◆ In connection with credit or collection transactions.
- ◆ For employment purposes.
- ◆ For the underwriting of insurance.
- ◆ For the determination of a consumer's eligibility for a license.
- ◆ Other legitimate business transactions initiated by you.
- ◆ **To review an account to determine whether you continue to meet the terms of the account.**
- ◆ Court orders meeting specific requirements.
- ◆ At the your written instruction.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.

FAIR CREDIT REPORTING



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site <http://www.dfi.state.in.us>



FAST FACTS

- ✓ Credit scoring is a system used by some creditors to determine whether to give you a loan or credit card.
- ✓ To develop a system, a creditor will use statistical methods to identify and weigh characteristics based on how well each predicts who would be good a credit risk.
- ✓ With credit scoring systems, creditors are able to evaluate millions of applicants consistently and impartially on many different characteristics.

How does a creditor decide whether to lend you money for such things as a new car or a home mortgage? Many creditors use a system called "credit scoring" to determine whether you are a good credit risk. Based on how well you score, a creditor may decide to extend credit to you or turn you down. The following questions and answers may help you understand who gets credit, and why.

What is credit scoring?

Credit scoring is a system used by some creditors to determine whether to give you a loan or credit card. The creditor may examine your past credit history to evaluate how promptly you pay your bills and look at other factors as well, such as the amount of your income, whether you own a home, and how many years you have worked at your job. A credit scoring system awards points for each factor that the creditor considers important. Creditors generally offer credit to those consumers awarded the most points because those points help predict who is most likely to pay back the debt.

Why is credit scoring used?

In smaller communities, shopkeepers, bankers, and others who extend credit often knew by word of mouth who paid their debts and who did not. As some creditors became larger

and as the number of their consumer credit applications grew, these creditors needed to establish more systematic and efficient methods for evaluating which consumers were good credit risks. Credit scoring is one such technique.

Although smaller creditors still may rely on informal credit evaluations, many large companies now use formal credit scoring systems. Although no system is perfect, credit scoring systems can be at least as accurate as informal methods for granting credit — and often are more so — because they treat all applicants objectively.

How is a credit scoring system developed?

Most credit scoring systems are unique because they are based on a creditor's individual experiences with customers. To develop a system, a creditor will select a random sample of its customers and analyze it statistically to identify which characteristics of those customers could be used to demonstrate creditworthiness. Then, again using statistical methods, a creditor will weigh each of these factors based on how well each predicts who would be a good credit risk.

How is a consumer's application scored?

To illustrate how credit scoring works, consider the following example that uses only three factors to determine whether someone is creditworthy. (Most systems have 6 to 15 factors.)

Example:

FACTORS POINTS	POINTS	FACTORS	
MONTHLY INCOME:		AGE:	
Less than \$400	0	21-28	11
\$400 to \$650	3	28-35	5
\$651 to \$800	7	36-48	2
\$801 to \$1,200	12	48-61	12
\$1,200 +	15	61 +	15
TELEPHONE			
in Home	Yes	No	0

Some credit scoring systems award fewer points to people in their thirties and forties, because these individuals often have a relatively high amount of debt at that stage of their lives. The law permits creditors using properly-designed scoring systems to award points based on age, but people who are 62 or older must receive the maximum number of points for this factor.

If, for example, you needed a score of 25 to get credit, you would need to make sure you had enough income at a certain age (and, perhaps a telephone) to qualify for credit. Remember, this example shows very generally how a credit scoring system works. Most credit scoring systems consider more factors than this example — sometimes as many as 15 or 20. Usually these factors are obviously related to your credit worthiness. Sometimes, however, additional factors are included that may seem unusual. For example, some systems score the age of your car. While this may seem unrelated to creditworthiness, it is legal to use factors like these as long as they do not illegally discriminate on race, sex, marital status, national origin, religion, or age.

How valid is the credit scoring system?

With credit scoring systems, creditors are able to evaluate millions of applicants consistently and impartially on many different characteristics. But credit scoring systems must be based on large enough numbers of recent accounts to make them statistically valid.

Although you may think that such a system is arbitrary or impersonal, a properly developed credit scoring system can make decisions faster and more accurately than an individual can. And many creditors design their systems so that marginal cases — not high enough to pass easily or low enough to fail definitively — are referred to a credit manager who personally decides whether the company will extend credit to a consumer. This may allow for discussion and negotiation between the credit manager and a consumer.

What happens if you are denied credit?

While a creditor is not required to tell you the factors and points used in its scoring system, the creditor must tell you why you were rejected for credit. This is required under the federal Equal Credit Opportunity Act (ECOA).

So if, for example, a creditor says you were denied credit because you have not worked at your current job long enough, you might want to reapply after you have been at that job longer. Or, if you were denied credit because your debt-free monthly-income was not high enough, you might want to pay some of your bills and reapply. Remember, also, that credit scoring systems differ from creditor to creditor, so you might get credit if you applied for it elsewhere.

Sometimes you can be denied credit because of a bad credit report. If so, the Fair Credit Reporting Act requires the creditor to give you the name and address of the credit reporting bureau that reported the information. You might want to contact that credit bureau to find out what your credit report said. This information is free if you request it within 30 days of being turned down for credit. Remember that the credit bureau can tell you what is in your report, but only the creditor can tell you why it denied your application.

Where can you go for more information?

If you have additional questions about credit scoring issues, write to: Correspondence Branch Federal Trade Commission Washington, D.C. 20580 <http://www.ftc.gov>. While the FTC cannot resolve individual problems for consumers, it can act when it sees a pattern of possible law violations.



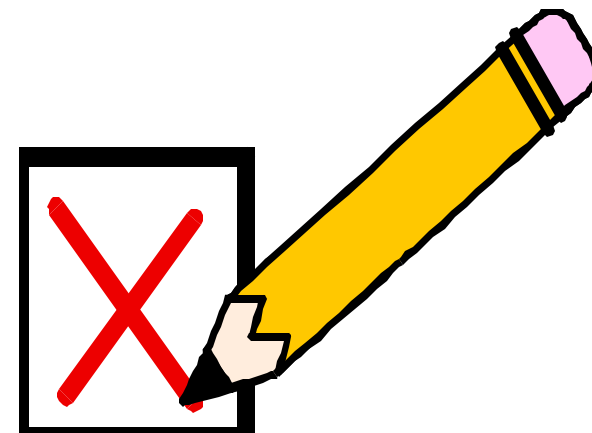
The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information. You can also access information at our web site on the Internet: <http://www.dfi.state.in.us>, then click on Consumer Credit.



SCORING FOR CREDIT



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
402 West Washington Street, Room W066
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880
Web Site <http://www.dfi.state.in.us>



CREDIT REPAIR - Help Yourself

You see the advertisements in newspapers, on TV, and on the Internet. You hear them on the radio. You get fliers in the mail. You may even get calls from telemarketers offering credit repair services. They all make the same claims:

"Credit problems? No problem!"

"We can erase your bad credit -- 100% guaranteed."

"Create a new credit identity-- legally."

"We can remove bankruptcies, judgments, liens, and bad loans from your credit file forever!"

Do yourself a favor and save some money, too. Don't believe these statements. Only time, a conscious effort, and a personal debt repayment plan will improve your credit report.

The following explains how you can improve your credit worthiness and lists legitimate resources for low or no-cost help.

CREDIT REPAIR COMPANIES

Everyday, companies nationwide appeal to consumers with poor credit histories. They promise, for a fee, to clean up your credit report so you can get a car loan, a home mortgage, insurance, or even a job. The truth is, they can't deliver. After you pay them hundreds or thousands of dollars in up-front fees, these companies do nothing to improve your credit report; many simply vanish with your money.

The Warning Signs...

If you decide to respond to a credit repair offer, beware of companies that:

- ▶ Want you to pay for credit repair services before any services are provided;
- ▶ Do not tell you your legal rights and what you can do -- yourself -- for free;
- ▶ Recommend that you not contact a credit bureau directly; or
- ▶ Advise you to dispute all information in your credit report or take any action that seems illegal, such as creating a new credit identity. If you follow illegal advice and commit fraud, you may be subject to prosecution.

You could be charged and prosecuted for mail or wire fraud if you use the mail or telephone to apply for credit and provide false information. It's a federal crime to make false statements on a loan or credit application, to misrepresent your Social Security Number, and to obtain an Employer Identification Number from the Internal Revenue Service under false pretenses.

Thanks to the new Telemarketing Sales Rule, it's also a crime for telemarketers who offer credit repair services to require you to pay until six months after they've delivered the services.

The Truth

No one can legally remove accurate and timely negative information from a credit report. But the law does allow you to request a reinvestigation of information in your file that you dispute as inaccurate or incomplete. There is no charge for this. Everything a credit repair clinic can do for you legally, you can do for yourself at little or no cost. According to the Fair Credit Reporting Act:

You are entitled to a free copy of your credit report if you've been denied credit within the last 30 days. If your application for credit, insurance, or employment is denied because of information supplied by a credit bureau, the company you applied to must provide you with that credit bureau's name and address.

You can dispute mistakes or outdated items for free. Ask the credit reporting agency for a dispute form or submit your dispute in writing, along with any supporting documentation.

Clearly identify each item in your report that you dispute, explain why you dispute the information, and request a reinvestigation. If the new investigation reveals an error, you may ask that a corrected version of the report be sent to anyone who received your report within the past six months. Job applicants can have corrected reports sent to anyone who received a report for employment purposes during the past two years.

If the reinvestigation does not resolve your dispute, have the credit bureau include your version of the dispute (up to 100 words) in your file and in future reports. Remember, there is no charge for a reinvestigation.

FILE SEGREGATION SCAMS

If you have filed for bankruptcy, you may be told by a "credit repair" company that you won't be able to get any type of credit for ten years. This is not always true.

To help you "hide" your bankruptcy, the credit repair company may promise to tell you how, for a fee, to establish a new credit identity. The plan, however, is illegal.

If you use the plan, often called "file segregation," you could face fines or even prison.

If you have filed for bankruptcy, you may be the target of a new credit repair scheme, often called "file segregation." In this scheme, you are promised a chance to hide unfavorable credit information by establishing a new credit identity. That may sound perfect, especially if you fear that you will not be given any credit as long as bankruptcy appears on your credit record.

The problem is, "file segregation" is illegal. If you use it, you could face fines or even prison.

This fact sheet alerts you to some aspects of this new type of credit repair scam, describes the false claims that fraudulent companies sometimes use to sell you the service, and says why participation is illegal. It also lists other brochures that discuss your credit rights and responsibilities.

THE PITCH: A NEW CREDIT IDENTITY

If you have filed for bankruptcy, you may receive a letter from a credit repair company that warns you about your inability to get credit cards, personal loans, or any other types of credit for ten years. For a fee, the company promises to help you hide your bankruptcy and establish a new credit identity you can use when applying for credit.

If you pay the fee and sign up for the service, you may be directed to apply for an Employer Identification Number (EIN) from the Internal Revenue Service (IRS). Typically, EINs -- which resemble social security numbers -- are used by businesses to report financial information to the IRS and the Social Security Administration.

After you receive your EIN, you are advised to use it in place of your social security number when you apply for credit. You also are advised to use a new mailing address and to include some credit references.

The Catch: False Claims...

Listed here are reasons a credit repair service may give you for establishing a new credit identity. These false claims, along with the pitch for getting a new credit identity, should alert you to the possibility of fraud.

Claim 1: You will not be able to get credit for 10 years (the period of time bankruptcy information may stay on your credit record). Each creditor has its own criteria for granting credit. While one may reject your application because of a bankruptcy, another may grant you credit shortly after you filed for bankruptcy. And, given a new reliable payment record, your chances of obtaining credit will probably increase as time passes.

Claim 2: The company or "file segregation" program is affiliated with the federal government. The federal government does not support or work with companies offering such programs.

Claim 3: The "file segregation" program is legal. It is a federal crime to make any false statements on a loan or credit application, which the credit repair company may advise you to do. It is a federal crime to misrepresent your social security number. It also is a federal crime to obtain an EIN from the IRS under false pretenses. Further, you could be charged with mail or wire fraud if you use the mail or the telephone to apply for credit and provide false information. Also, file segregation would likely constitute civil fraud under many state laws.

HAVE YOU BEEN VICTIMIZED?

If you've had a problem with a credit repair company, don't be embarrassed to report the company. Contact your local consumer affairs office or your state attorney general (AG). Many AGs have toll-free consumer hotlines. Check with your local directory assistance. Indiana's AG toll-free number is 1-800-382-5516.

If you receive a letter from a company making such claims, contact your state attorney general or consumer protection office. You also can file a complaint with the FTC. Write: Correspondence Branch, Federal Trade Commission, Washington, D.C. 20580. While the FTC does not handle individual cases, it can act against companies when it sees a pattern of possible law violations developing.

The National Fraud Information Center (NFIC) also accepts consumer complaints. You can reach NFIC at 1-800-876-7060, 9 a.m. - 5:30 p.m. EST, Monday - Friday, or at <http://www.fraud.org> on the Internet. NFIC is a private, nonprofit organization that operates a consumer assistance phone line to provide services and help in filing complaints. NFIC also forwards appropriate complaints to the FTC for entry on its telemarketing fraud database.

Need Help? Don't Despair

Just because you have a poor credit report doesn't mean you won't be able to get credit. Creditors set their own credit-granting standards and not all of them look at your credit history the same way. Some may look only at more recent years to evaluate you for credit, and they may grant credit if your bill-paying history has improved. It may be worthwhile to contact creditors informally to discuss their credit standards.

If you can't resolve your credit problems yourself or you need additional help, you may want to contact a credit counseling service. There are non-profit organizations in every state that counsel consumers in debt. Counselors try to arrange repayment plans that are acceptable to you and your creditors. They also can help you set up a realistic budget. These counseling services are offered at little or no cost to consumers. You can find the office nearest you by checking the white pages of your telephone directory.

In addition, nonprofit counseling programs sometimes are operated by universities, military bases, credit unions, and housing authorities. They're also likely to charge little or nothing for their services. Or, you can check with your local bank or consumer protection office to see if it has a list of reputable, low-cost financial counseling services.

Do-It-Yourself Check-Up For Free

Even if you don't have a poor credit history, it's a good idea to conduct your own credit check-up, especially if you're planning a major purchase, such as a home or car. Checking in advance on the accuracy of the information in your credit report could speed the credit-granting process.

Credit bureaus usually are listed in the yellow pages of your telephone book under "credit reporting agencies." Three large national credit bureaus supply most credit reports: Experian, Equifax, and Trans Union. You may want to contact each of them for a copy of your report.

Experian (Formerly TRW)
P.O. Box 949
Allen, TX 75013-0949
(888) 397-3742
www.experian.com
Free

TransUnion Corporation
Trans Union Consumer Relations
760 West Sproul Road, P.O. Box 390
Springfield, PA 19064-0390
(800) 916-8800, www.tuc.com
\$8 Fee

Equifax Credit Information Services, Inc.
P.O. Box 740241
Atlanta, GA 30374-0241
(800) 685-1111
www.equifax.com
\$8 Fee



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
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Variable Rate Credit
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CREDIT REPAIR SCAMS



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ABOUT YOUR CREDIT REPORT

What is a credit report (also known as a credit file or profile)?

It is a written report (stored in computers comprised of the following information about your personal credit worthiness and debt repayment history.

- **Identification** by name, address, spouse's name, date of birth, Social Security number, telephone number, place of employment, mother's maiden name, etc.
- **Credit inquiries** - every time a subscriber (credit provider) runs a credit report on a consumer, a record of the file inquiry is made. It will remain on the file in most states for one or two years. This is of interest to creditors because it reveals recent credit activity.
- **Information in public records and collection accounts** are also collected by (or reported) to these agencies. Public records include courthouse records, bankruptcies, judgments, law suits, criminal records, etc.
- **Credit history** - which includes the name and ID number of each subscriber who makes a report and your credit/debt repayment history. Also included is the date an account was opened, credit limits, current balance, monthly payment amount and payment frequency for the last 12-24 months. Records are dated with each request of entry. Other information includes, but is not limited to, consumer disputes, criminal convictions, individual liability or joint liability of accounts, co-maker or guarantor of payment on a certain account, secured accounts and charge offs (when a creditor has reported an unpaid balance as a loss).
- **Consumer statements** - a statement, not to exceed 100 words, regarding any account(s) an individual may wish to more accurately and completely explain, often very helpful to credit decisions.

When is a Credit File Created?

Usually when you make application for a loan or credit card or when a party who extended credit makes a report to their credit reporting service on your debt repayment.

Who can Legally Look at my Credit Report?

Credit reporting agency subscribers comprised of banks, other lenders, merchants extending credit, life insurance companies, companies on employment applications, rental leasing, security clearance, etc. may not access an individual's credit record unless disclosure is made that a credit report will be requested and in many instances must receive authorization from the consumer. This authorization is standard procedure when you sign an application in any of the above transactions. Read the fine print on the applications for more details.

How Often Should I Look at my Credit Report?

If you are actively using credit, using one or more credit cards with monthly or bimonthly charge activity, have installment loans(s), vehicle lease, etc. review your credit file every nine to twelve months, otherwise every 15 months is adequate.

What if I Need Help?

Avoid any type of credit repair firm or service. Do it yourself instead. It is easy and inexpensive.

The Truth About Credit Repair

Accurate and timely information cannot be removed from your credit report, even if you have paid off a once delinquent debt. The fact that it is paid off is to your credit; however, the fact that the account was once delinquent is also true and can remain on your credit files from up to seven years.

Bankruptcy information can be reported for up to ten years. Information reported because of an application for a job with a salary of more than \$20,000 has no time limit. Information reported because of an application for more than \$50,000 worth of credit line or life insurance has no time limitation. Default information concerning a US Government insured or guaranteed loan can be reported for seven years after certain grantor actions. Information concerning a law suit or a

judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer.

No one can legally remove accurate and timely negative information from a credit report. The law does, however, allow consumer's to request an investigation or reinvestigation of the facts and information in your credit file that you dispute as inaccurate or incomplete. There is no charge for this information.

Credit repair clinics or services can't do anything to improve your credit report that you can't do for yourself, at little or no cost. Avoid companies that want you to pay for credit repair services **before** they provide any services. It is illegal for telemarketers who offer credit repair services to request payment until six months after they have delivered the service.

THE SCAM

Everyday companies nationwide appeal to consumers with poor credit histories. They promise, for a fee - usually paid up-front - to clean up your credit report so you can get a car loan, a home mortgage, insurance, or even a job.

The truth is, says the FTC, that they can't deliver on their promises and claims. According to hundreds of reports, consumers pay hundreds or thousands of dollars in up-front fees and these companies do nothing to improve your credit report, many credit repair companies simply vanish with the consumer's money.

These companies do not tell you your legal rights and what you can do yourself for free. They often recommend that you do not contact a credit bureau directly. Or they advise you to dispute all information on your credit report or to create a new credit identity which is illegal.

If you follow any illegal advice or commit fraud, you also may be subject to prosecution.

The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
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CREDIT REPORTING & SCAMS



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